



**MCI Telecommunications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2551  
FAX 202 887 2676

EX PARTE OR LATE FILED

**Mary L. Brown**  
Senior Policy Counsel  
Federal Law and Public Policy

ORIGINAL

ORIGINAL

RECEIVED

JUL 14 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

July 14, 1998

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
Washington DC 20554

Re: **EX PARTE** in Universal Service Reform, CC Docket No. 96-45

Dear Ms. Salas:

On July 13, 1998, Jonathan B. Sallet, MCI's Chief Policy Counsel, Michael Pelcovits, MCI's Chief Economist, Martha McMillan, and Joseph Miller met with Chairman David Baker of the Georgia Commission and Federal-State Joint Board to discuss pending issues in the above-captioned proceeding.

Attached is material that MCI used in its presentation to Mr. Baker.

Sincerely,

Mary L. Brown

CC: David Baker

No. of Copies rec'd  
List A B C D E

at 2

# UNIVERSAL SERVICE REFORM

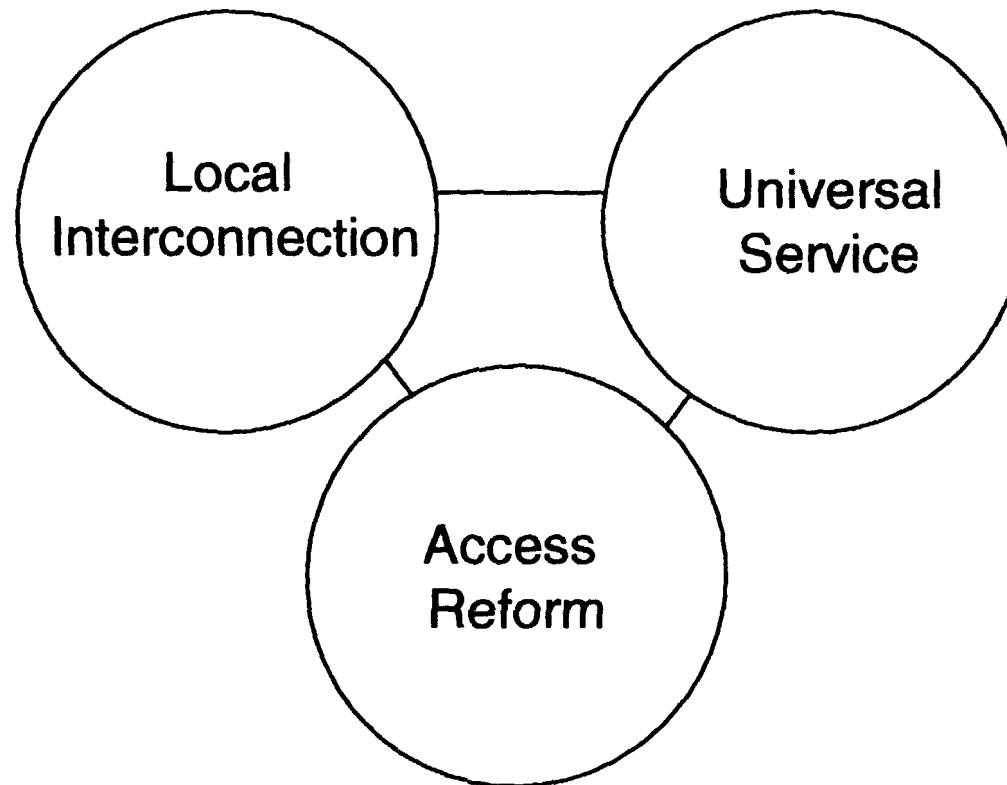
July 13, 1998

1

RECEIVED  
JUL 14 1998  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY  
MCI

# Universal Service Cannot Be Fixed By Itself...

---



**All Parts Must Be Based on  
Forward-Looking Economic Cost**

July 13, 1998

2

  
**MCI**

# Principles

---

- ◆ The subsidy should be the **minimum** needed to meet the public-policy objective of affordability.
  - It should be **targeted to high-cost areas** in states.
  - It should be calculated by comparing the **forward-looking economic cost** of providing service to the **per-line revenues** that would be generated when rates for basic service are affordable (a nationwide affordability benchmark).
  - A small interstate fund does not yield a minimum subsidy if implicit subsidies are not reduced or if accompanied by an inflated intrastate fund.

# Principles

---

- ◆ For every dollar of explicit subsidy collected, there must be a dollar **reduction in implicit subsidies** currently borne by the customers/providers paying into the new explicit fund.
- ◆ The funding mechanism should be implemented, and the subsidy dispersed, in a **competitively-neutral and administratively efficient fashion** consistent with the pro-competition provisions and spirit of the Telecommunications Act.
  - The mechanism should foster interconnection and access reform, e.g., by tying funding for non-rural LECs to the opening of local markets.
  - Providers should be allowed to recover Universal Service funds through end user charges.

# MCI'S PROPOSAL

---

The MCI proposal for non-rural LECs provides one way to meet these sound public policy principles. It can be applied to any interstate fund, without regard to the percentage of Universal Service subsidy burden borne by the interstate jurisdiction.

- ◆ Determine the size of the interstate fund by comparing the affordability revenue benchmark to the forward-looking economic costs of providing service, calculated using the same cost zones as the state uses for setting deaveraged loop rates.
- ◆ Calculate the share borne by each interstate service provider by multiplying the total subsidy needed in the state by the carrier's share of retail interstate revenues.

# MCI'S PROPOSAL

- ◆ Do not allow the LECs to recover the assessment on their retail interstate services from their wholesale customers through the inclusion of these costs in access charges.
- ◆ Encourage all contributors to identify the Universal Service assessment on customer bills as a federal Universal Service fee.
- ◆ The dollar reduction in implicit interstate subsidies for every dollar collected by the explicit Universal Service fund would be accomplished in the following order:
  - Pay off the additional interstate revenue requirement allocation made under Rule 36.631
  - Reduce interstate access charges, starting with the CCLC, then, if needed, the PICC, and then, if needed, the local switching charge.
- ◆ Since national funding is from interstate revenues only, any state Universal Service fund must be imposed only on intrastate revenues.

# Link Explicit USF Subsidies to Unbundled Loop Rate Deaveraging

-----

- ◆ Universal Service subsidy calculations should be tied to the degree of unbundled loop rate deaveraging in the ILEC's service area.
- ◆ This approach will create a virtuous cycle of pro-competitive action by giving ILECs and states the incentive to deaverage loop rates into zones that reflect underlying cost differences.
- ◆ Until loop rates are deaveraged, there is no compelling need for new explicit funding.
- ◆ Once loop rates are deaveraged, the presence of the new explicit funds will ensure that competition and support for high-cost areas go hand in hand, which is the best way to expand universal service.



# Universal Service Calculation Sheet

## monthly costs per line

HAI Model

Southern Bell-Ga

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
<b>Costs</b>										
Loop	\$ 116.58	\$ 36.59	\$ 19.79	\$ 14.70	\$ 12.13	\$ 10.02	\$ 7.79	\$ 6.76	\$ 4.12	\$ 13.98
Other	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47	\$ 4.47
<b>Avg monthly cost per line</b>	\$ 121.05	\$ 41.06	\$ 24.26	\$ 19.17	\$ 16.60	\$ 14.49	\$ 12.26	\$ 11.23	\$ 8.59	\$ 18.46
<b>Rev per month</b>										
Residential	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00	\$31.00
Business	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00	\$51.00
<b>Total switched lines</b>	13,702	412,448	246,445	567,460	175,918	1,231,637	600,925	261,838	176,641	3,687,014
Residence lines	13,417	348,691	185,027	407,948	125,798	845,397	339,122	101,034	37,529	2,404,963
Business & Public lines	286	62,757	61,418	159,512	50,119	386,239	261,803	160,803	139,113	1,282,051
<b>Total annual support</b>	\$ 13,274,276	\$ 38,229,242	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Total support  
with deaveraging \$ 51,503,518

Total support  
without deaveraging \$ -

July 13, 1998

## How the Various Universal Service Proposals Meet Sound Public Policy Principles

Principle	Proposal Meets the Principle	Proposal Does Not Meet the Principle	Proposal Does Not Address Principle
Subsidy is minimum needed to meet the public policy objective of affordability: small interstate fund does not yield minimum subsidy if implicit subsidies not reduced or if accompanied by inflated intrastate fund.	MCI, Ameritech, CFA	Ad Hoc, Arizona, BellSouth, GTE, Sprint, U S West	AT&T, Colorado, Time Warner
For every \$ of explicit subsidy collected, \$ reduction in implicit subsidies currently borne by those paying into the new explicit fund.	MCI, Ameritech, BellSouth, Sprint	Ad Hoc, Arizona, CFA, GTE, U S West	AT&T, Colorado, Time Warner
Funding burden imposed, and subsidy dispersed, in a competitively neutral and administratively efficient fashion.	MCI, Ameritech, CFA, GTE, Sprint	Ad Hoc, Colorado, Time Warner, U S West	Arizona, AT&T, BellSouth, CFA, Colorado
Consistent with pro-competition provisions and spirit of the Act — fosters interconnection and access reform: high cost Universal Service funding for non-rural LECs tied to opening of local markets.	MCI, AT&T	Ad Hoc, Arizona, BellSouth, CFA, Colorado, GTE, Sprint, U S West	Ameritech, Time Warner

Note: Many of the proposals submitted did not provide detail on how the funding burden would be imposed, how the subsidy would be dispersed, or other information needed to fully analyze whether the funding mechanism would be administratively efficient.

# THE STATES' ISSUES

---

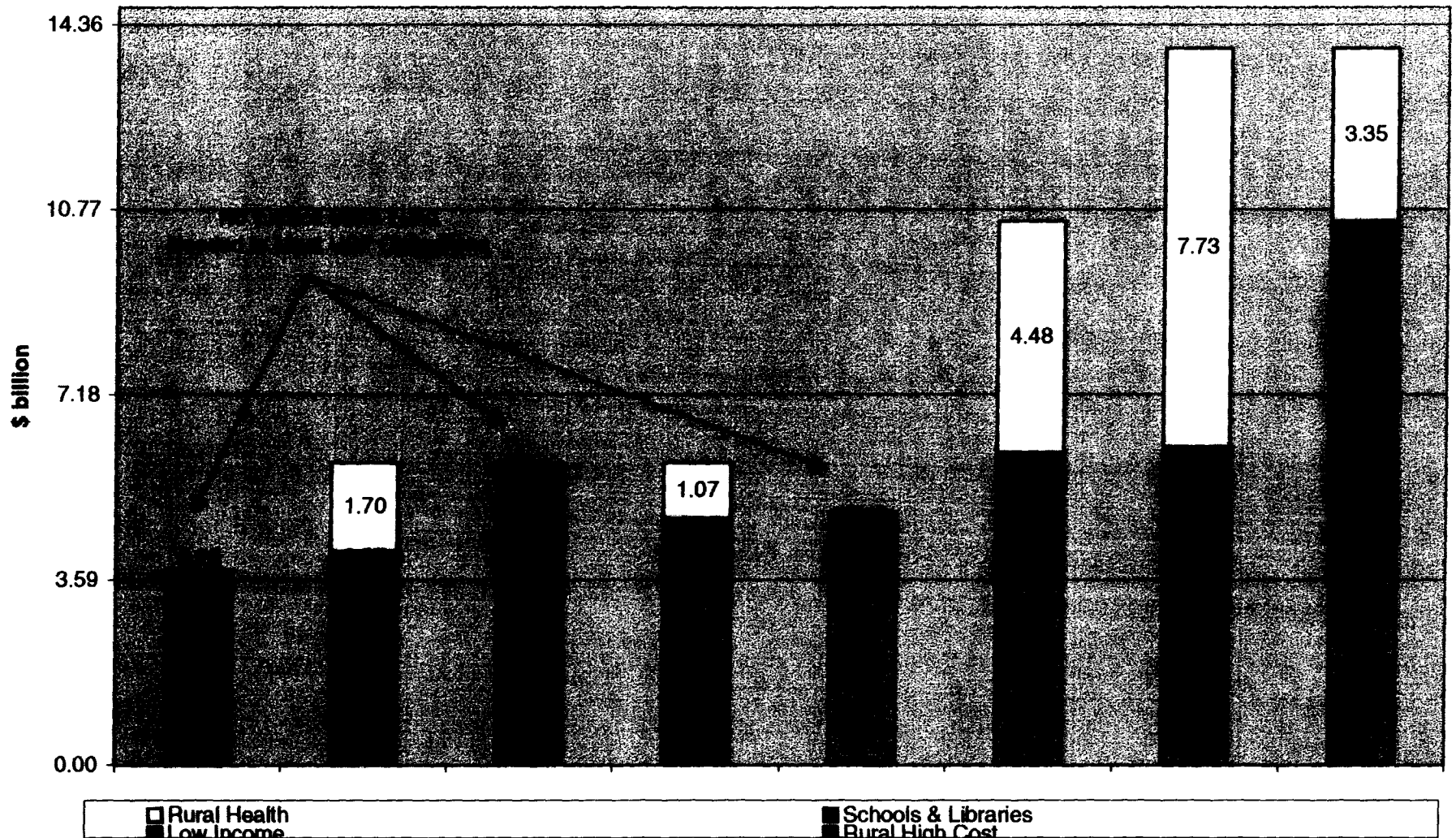
- Q) Whether the FCC should take responsibility only for 25% of the high cost subsidy.
- A) The fund could go above 25% if interstate access charges are reduced by the amount of explicit subsidy and federal funding is tied to completion.
- Q) Whether federal universal service funds should reduce the cost of interstate access charges.
- A) Interstate access charges should be reduced by the amount of the explicit subsidy.
- The FCC has found that part of interstate access charges support universal service. With the creation of an explicit subsidy, these implicit subsidies must be removed.
  - Some rate must be reduced or else LECs would double-dip.
  - Interstate rates must be reduced to prevent a separations change.
  - Interstate rates should be reduced because customers of interstate services will be paying the explicit high cost fund amounts.
- Q) What method should be used for formulating and distributing high cost funds among the States.
- A) Under MCI's proposal, states would get, at a minimum, their current level of support. States could receive more support when loop rates are deaveraged.

# THE STATES' ISSUES

---

- Q) Whether and to what extent the FCC should have a role in making intrastate support systems explicit, and a referral of the section 254(k) issue concerning recovery of joint and common costs.
- A) The Telecommunications Act requires universal service subsidies, in both the state and federal jurisdictions, to be explicit.
- Q) The revenue base upon which the FCC should assess and recover providers' contributions for universal service.
- A) If the federal Fund is Assessed on interstate and international revenues only, then state funds must be imposed only on intrastate revenues.
- Q) Whether, to what extent, and in what manner providers should recover contributions to universal service through their rates.
- A) Providers are entitled to recover all of their universal service costs.
- Providers should recover universal service costs from their customers through explicit charges.
  - Providers should recover universal service costs in the same manner as they are assessed.

**Explicit USF**  
**Current USF Compared to USF Proposals**  
**(Excludes Puerto Rico)**



# Georgia

	Explicit Federal Subsidy (\$ million)	Change in Non Rural Receipts (\$ million)
Current	71.09	0.00
25% Federal HAI	72.33	0.04
100% Federal HAI	107.20	35.51
USWC HAI	82.68	10.89
AD 1980	81.23	19.65
GTE	202.42	100.73
25% Federal BCPM	190.95	59.26
USWC BCPM	232.42	100.73